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Meeting of the Board of Directors

Copenhagen, Denmark, 9-10 November 2011

Substitution of Financing in the context of the Global Partnership for Education

For Input

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1. Purpose

The purpose of this paper is to seek input from the Board of Directors on appropriate actions to address an increasingly worrisome phenomenon, whereby grants from the Global Partnership for Education appear to be displacing funding from other sources, including IDA and other multilateral and bilateral financing to basic education in several of the Global Partnership's developing country partners. Since the intent of Global Partnership funding has always been to "crowd in" other financing, the apparent "crowding out" is very worrisome.

2. The Issue

2.1 The Education for All Fast Track Initiative (now the Global Partnership for Education) was established in 2002 as a partnership to leverage better use of existing funding channels through country-based policy dialogue and sector planning processes. A small World Bank multi-donor trust fund (the Catalytic Fund) was set up in 2004 to pool donor funding in support of implementation of the basic education elements of endorsed education sector plans in countries with large financing gaps. The intent was, in part, to attract additional external financing by giving a "seal of approval" through the endorsement process to countries which otherwise had failed to attract many external partners. A founding principle of the Global Partnership was that better policies will 'crowd in' additional financing, The original name of the GPE Fund—the Catalytic Fund—bore testimony to this premise, which is also at the heart of the aid effectiveness approach that is championed by the Global Partnership.

2.2 Since its establishment in 2002, the Global Partnership has grown in scale, with 46 developing country partners with endorsed national education plans and 20 donor country partners who have contributed US$2.2 billion (plus the additional pledges to the 2011 replenishment) to the Global Partnership's trust funds. The Global Partnership is now a major source of external basic education financing in low income countries, and has become a first resort source of additional funding for countries which lack the necessary resources to implement their education sector plans.

2.3 The Partnership has been quite successful in "crowding in" domestic financing, as the share of education in national budgets for GPE developing partner countries has grown on average from 18% to about 19% since the creation of the GPE, even as it declined slightly in non-GPE countries. The same does not appear to be true for other sources of external financing. Increasingly, bilateral donors have announced plans to withdraw their bilateral support from a number of GPE-supported countries. The African Development Bank has largely moved away from basic education. And the World Bank, which has been instrumental in supporting both the administration and the implementation of the Global Partnership's assistance for education development, appears to be investing fewer of its IDA resources for education in GPE-supported countries, especially in sub-Saharan Africa. Although a thorough analysis of the displacement of World Bank financing would require a broader calculation of all aid flows to all sectors, the incentive structure for governments to request either IDA credits or Global Partnership Fund grants for their basic education programs typically favors Global Partnership grants. It is likely that Ministries of Finance prefer to allocate IDA to other purposes (given that their total IDA allocation is capped under the Country Policy and Institutional Assessment (CPIA) allocation framework), selecting Global Partnership grants as a substitutive source of external financing for the education sector. Future funding for basic education is likely to be requested by GPE eligible countries from the Global Partnership Fund despite the availability and mandate of IDA financing to support basic education development. The World Bank's Education Sector has informed the Partnership Secretariat that it is committed to continuing to fund basic education in low income countries and is equally concerned about the apparent lagging demand at country-level to use IDA for basic education.

2.4 We have less specific information about the displacement of other bilateral and multilateral financing, but similar incentive structures exist in many cases, and it is almost certain that substitution occurs. This poses several risks. The additionality of the Global Partnership's grant facility is a key element of global efforts after the Dakar Summit in 2000 to achieve Education for All. It was initially intended to accelerate progress towards universal primary completion and gender equity. This was later

broadened to include all of the Education for All goals. Any substitution of financing, whether of World Bank IDA or of bilateral aid to education by Global Partnership grants poses a specific threat to the Global Partnership's mandate to provide additional financing for basic education which will accelerate progress towards universal quality basic education and the achievement of the Education for All goals. Similarly, the mandate of partners to support progress towards the Millennium Development Goals, and towards the Education for All goals, will be undermined if their funding is "crowded out" of basic education sub-sectors. In this context, the donor community as a whole has seen ODA levels for basic education stagnate for several years, even as the World Bank faces challenges in delivering on its commitment to provide an additional US$750 million in financing for countries which are off-track to achieve the education Millennium Development Goals.

2.5 Given the education funding needs in the Global Partnership's developing country partners and the relatively modest annual budget of the Global Partnership, it is important not only for bilateral donors to maintain their education aid, but also for the World Bank to actively encourage countries to prioritize basic education within their IDA envelopes in order to maintain robust levels of funding for basic education in low-income countries which are off-track to achieve the MDGs.

3. Input Requested

The Board of Directors is requested to provide input to the following questions:

a. What is the appropriate form of dialogue among partners in the Global Partnership which would result in the crowding in of external financing by Global Partnership grants?

b. What can partners in the Global Partnership who participate in Local Education Group policy dialogues do to ensure that developing country partners (including ministries of finance) continue to seek out and avail themselves in particular of IDA resources for basic education in addition to Global Partnership grants?

c. What can partners in the Global Partnership do to ensure that initiatives such as the "division of labor", which may lead to substitution, are not undertaken in isolation, and involve real country-level dialogue?

4. Contact

Board members and others with questions on these matters are invited to contact Robert Prouty, Head of the Secretariat, at: rprouty@globalpartnership.org.